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27 October 1976

MEMORANDUM

SUBJECT: Poland: What Next?

The Polish people's forceful rejection of price increases in June continues to dominate the political atmosphere in Warsaw. Party and government leaders are still suffering from the trauma of the riots and are postponing decisions on critical economic problems. In increasingly frank terms they have warned the sullen and distrustful Poles that a long period of belt-tightening is ahead. Basic foods are still in short supply and popular dissatisfaction has by no means decreased. Tensions will remain high and could explode again into public disorders and rioting as the badly shaken and obviously weakened regime tries to decide how to

- Regain public confidence.
- Manage the politically explosive and economically pressing problem of raising prices.
- Overcome shortages of consumer goods, especially meat.
- Proceed with economic development as the burden of hard-currency debt looms even larger.

Background

Contentiousness of the kind that sparked the rioting is deeply engrained in the Polish character. Particularly since the first partitions of the country nearly 200 years ago, Poles have regarded civil disobedience and opposition to foreign

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occupiers as patriotic virtues essential to the reemergence of the Polish state. The period between the World Wars was too brief and chaotic to alter these beliefs, and opposition to authority again became standard after the Communists took power.

Although Communist rule is accepted as a fact of life, the party has never enjoyed general acceptance. Many, if not most, Poles believe that the party rules only because of the proximity of the Soviet Union. Under these circumstances, perhaps the only way the party can achieve real legitimacy is to ensure a continuously improving standard of living.

Gierek came to power in December 1970 in the wake of bloody rioting over food price hikes and immediately restored the old prices. They have not risen since, despite burgeoning food subsidies, which between 1970 and 1975 rose from less than 6 percent to 14 percent of budget outlays.

Gierek also launched a program of rapid economic growth that required massive imports of Western capital goods. Investment boomed and Poland achieved a high economic growth rate. Additionally, frequent wage increases and controlled prices enabled the average Pole's real personal income to grow by 9 percent a year.

Consumption increased sharply, but because Warsaw was unable to provide enough attractive consumer durables, Poles began spending a large share of their money on food. Consumption of meat increased about 32 percent between 1970 and 1975. As a result of Gierek's wage and price policy, the demand for food has now outstripped supply.

The population has thus become accustomed to food consumption increases at rates that are no longer sustainable. Compounding the problem since 1974 has been bad weather, which resulted in a decline in grain and fodder output -- not fully made up by imports -- to support meat production. The increasing pressures on supply have led to the present crunch.

The imbalance had to be corrected by raising food prices, and the Poles would probably have accepted small price rises over the past few years with minimal grumbling. But party leaders, fearful that price increases, especially on meat, would

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create political instability, postponed any decision until last June. Then they compounded their earlier mistake by announcing unacceptably sharp increases.

This decision clearly caught the public off guard and was almost certainly taken without close consultation either with party members at the grass roots or with the population. The ensuing riots forced Prime Minister Jaroszewicz into a hasty withdrawal of the proposals one day later.

Tensions have since remained high. The Polish people, anticipating price hikes, have been hoarding many consumer items and thus creating additional shortages. The situation is so serious that the regime was forced to introduce sugar rationing.

In an effort to cool the popular temper, the regime has decided to delay price increases on food for at least a year, and possibly until mid-1978, and has promised to "consult" extensively with workers before any changes are made.

Problems in the Party

Gierek's status within the leadership is clearly weaker than it was before June, and a certain amount of jockeying for position is under way.

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Decision-making in the Politburo under Gierek has been based on consensus and not on diktat. During less troubled times, hammering out a consensus presented no serious problems. Over the past few years, however, policy differences have apparently been generating some increased friction. Although we lack specific evidence on the nature and depth of the disputes, the pace of economic development must have been a central issue. There have been hints that some members of the Politburo felt that the regime was pushing modernization too fast and that this was creating both a restive population and too much dependence on the West. The majority of the leaders, including Gierek, have pushed for continued rapid development.

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The relationship between Gierek and Prime Minister Jaroszewicz is clearly strained.

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[Redacted]

Since June, Gierek and Jaroszewicz have not appeared together as frequently as in the past. In addition, Jaroszewicz was out of public sight from September 23 until October 11. The embassy has heard rumors that he was sick but his absence may also have been related to the current wrangling over policy issues. On October 11, Jaroszewicz reappeared with Gierek at a ceremony in Czestochowa. Gierek made special reference to his presence, suggesting that the Polish rumor mill had already started to crank out stories to explain why the Prime Minister was out of sight. His reappearance could indicate that a compromise, perhaps only for the short term, has been reached.

Since the June crisis, party politicians have reportedly decided that they need to reassert their supremacy over the economic experts in the government. Gierek's unusual presence at a session of the Council of Ministers last month may have been a move in this direction. The party also created five special party-government teams to tackle the most sensitive economic problems. They will apparently by-pass, to some extent, existing government bureaucracies.

Despite the increased bickering, we do not believe that any major personnel changes within the top leadership are likely in the next six months to a year. Even Jaroszewicz, who has been the most vulnerable, has not been acting like he expects to be pushed out or is willing to throw in the towel.

The following factors suggest that Gierek is not yet in any danger of removal or resignation:

- His resignation would publicly underscore the party's internal weakness, something neither the party nor Moscow wants.
- There has been no public outcry for Gierek's removal. He came to power in the wake of public revulsion against the bloody suppression of striking workers in Gdansk. During the demonstrations and riots in June, the police were held in check.

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--Before the June riots, Gierek had opposed price increases. Although he gave in on the issue, his position was proven correct.

--No one is standing in the wings ready to take over. Gierek has no easily identified heir-apparent, and the leadership realizes that a mere change in face at the top will not satisfy the public, which is concerned about solutions to serious economic problems. Any replacement would come from the current Politburo, and no one in that body could inspire more public confidence than does Gierek himself.

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[redacted] [redacted] Edward Babiuch, Jan Szydlak and Stanislaw Kania, next to Gierek, appear to be the most influential. Only these four are party secretaries as well as full Politburo members.

Babiuch (48) is responsible for intra-party affairs and for contacts with foreign communist parties. He has been an organizational apparatchik his entire career and has not involved himself deeply in economic matters. We believe that he works closely with Gierek.

Szydlak (51) is responsible for ideology and general economic matters. He is known as a tough party type and a good administrator. His chances for becoming first secretary would be hurt by stories circulating in Poland that he belonged to the Wehrmacht during World War II.

Kania (49) is responsible for party oversight of the military and internal security apparatuses. He is a relatively unknown figure. 25X1

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The US ambassador was recently told [redacted] [redacted] that middle-level Polish officials described Babiuch, Szydlak, and Jaroszewicz as "hard liners" who had opposed Gierek in recent Politburo decisions. The ambassador remarked that he had never heard Babiuch referred to in this way. We have no confirmation of this story, but, if true, it does suggest significant maneuvering within the leadership.

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The Church

Gierek must also take care to maintain good relations with the other seat of power in Poland, the Catholic church. For most of their history, Poles have equated being Catholic with being Polish, and today about 90 percent of the population is Catholic -- and 80 percent practicing. Stefan Cardinal Wyszynski, the crusty old Primate, embodies the concept of the church as a prime repository of Polish patriotism. Throughout Gierek's tenure, a delicate truce has existed between church and state. Although the current leaders have not given up their opposition to the church -- and indeed cannot -- they feel they can afford a long term battle of attrition and want to concentrate popular attention and efforts on economic development.

The Cardinal strongly asserts the church's status, but has not challenged the regime during difficult economic times. Party leaders generally regard him as a patriot and took the unusual step of asking the Vatican not to accept Wyszynski's resignation when he reached age 75 in August. Over recent weeks, he has more aggressively asserted his criticism of current regime policies.

Economic Prospects

The need for dramatic corrective measures in the economy comes at a time when Poland's options are limited. Because of severe problems in its hard-currency balance of payments, Poland has little flexibility in foreign trade. The Soviets are not likely to provide any significant assistance.

Warsaw's decision to freeze food prices for at least another year will aggravate the supply problem. On the other hand, wages cannot be frozen without generating adverse worker reaction. Nor can the regime strong arm the farmer to increase agricultural deliveries without irritating yet another segment of the population.

The pressure on meat supplies is not likely to ease soon. Livestock inventories are down because farmers -- faced with fodder shortages for several months -- could not maintain them, resulting in some distress slaughtering. Herds cannot be rebuilt quickly. It will be impossible -- at current prices -- to satisfy the demand for meat and meat products for at least a year.

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This situation will be aggravated by Warsaw's recent decision to clamp a lid on free market prices for meat and produce. Although a short-run sop to urban workers, the ceiling will increase food shortages because urban demand for quality foods will rise and the farmer will make fewer products available.

Warsaw could introduce meat rationing as a short-term measure to achieve equitable distribution and reduce queues. Rationing, however, would not increase available supplies. In any case, a recent press article indicates that the government may have decided against this course.

Poland's only viable option is to increase supply by importing extraordinary amounts of grain and fodder. Imports are projected at 7 million tons -- about the same as last year -- in the marketing year ending June 30, 1977. Most will come from the West, requiring over \$1 billion in hard-currency expenditures. The Poles hope to obtain some 4 million tons from the US alone. Warsaw is also stepping up meat imports -- mostly from the West -- and making further cuts in meat exports, an important source of hard currency.

Poland's heavy hard-currency debt burden and the need for extraordinary imports of grain and fodder for at least another year will force Warsaw to cut back even more severely on imports of industrial materials. Another large deficit -- on the order of the \$3 billion incurred last year -- is expected in 1976, and the debt is expected to rise to \$10 billion, up from \$6.9 billion at yearend 1975.

Difficulties in obtaining the financing needed to cover continued large deficits and to meet debt obligations are likely, and Poland may well be forced to allow little if any import growth over the next few years. Without a vast improvement in agricultural production, the Poles will have to continue to hold down imports of industrial materials. Thus, Warsaw may be forced to reduce its economic growth plans. Before doing so, however, it is likely to seek help from the West in refinancing or rescheduling part of their debt.

Soviet Response

Moscow is obviously concerned about the situation and is primarily interested in seeing that political stability is maintained. On the other hand, the Soviet leaders do not want to expend their own precious resources to bail out Poland

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if they can avoid it. They see Poland's problems as stemming from Warsaw's questionable policies.

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Soviet leaders have been seriously concerned about Poland's increasing indebtedness to the West and its policy of emphasizing rapid wage increases. In August 1975, Soviet Premier Kosygin visited Warsaw

Gierek must have won at least grudging approval for his course, since he soon thereafter appointed a man to head the planning commission whom the US embassy considers Poland's leading "Americanizer."

Actually neither the USSR nor the other East European countries can provide the modern machinery and financial aid which Poland needs, thus in effect forcing Warsaw to turn to the West. The Poles have undoubtedly used this argument in countering Moscow's complaints.

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A Delaying Game

Grappling with these thorny and frustrating economic problems and with the after-effects of the June riots could well put the leadership to the most severe test in the history of Communist Poland. Gierek and his cohorts know that without demonstrable improvement in the economy, they cannot regain the public confidence they have lost. They also realize that it may take several years to get the economy on track again. Painfully aware that the party has been forced to bow to the popular will twice in six years -- and that the people are increasingly conscious of their own power -- the leaders will take no action that could send their unruly subjects into the streets again.

In this atmosphere, the leadership has decided to retreat from many of its previously announced positions.

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--Price increases on basic food items will be postponed, probably until mid-1978.

--The Polish Supreme Court has released seven workers sentenced to 3-10 year jail terms for participating in the Ursus tractor factory disturbances. The leadership realized that pursuing their case against the strikers could only deepen public disaffection.

--The regime has withdrawn from the Sejm a proposed law on agriculture that would have allowed the confiscation of inefficiently cultivated land. This law had raised the ire of the Catholic church and the specter of forced collectivization.

In a positive direction, the government and party are openly discussing the need for greater popular involvement in the decision-making process. Gierek has prided himself on maintaining close contacts with workers, and he often travels around the country visiting factories and farms. At the party congress last December, he promised that the regime would conduct close "consultations" with the public before introducing price increases.

In the event, this was not done, and it is still too soon to determine how -- if at all -- the regime intends to pursue public participation. Whatever it does, the party must tread a thin line. It must promote the appearance, if not reality, of popular input to decision-making without weakening the "leading role of the party."

The immediate result of the search for better relations with the public is more frankness in discussing Poland's economic problems and prospects. This was most noticeable in Jaroszewicz's speech to the Sejm on September 22. The leadership is telling the population that current difficulties are serious but transitory. The leaders are counting on better harvests in the future, which would improve the domestic supply situation and lessen the outflow of hard currency for grain and fodder. They also are banking on an increase of exports from major new industrial complexes to ease the balance-of-payments problems.

What the regime cannot assess is whether the population is willing to wait.

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The most dangerous times for the regime, in the near term, will come in the weeks before Christmas and Easter. During these periods the Polish people go on an eating binge. Normally the government stockpiles sufficient quantities of meat for the occasions, and we presume that this is the case this year also. There could, however, be other irritants this winter that would add to popular discontent. The regime is already cautioning the public to use coal and electricity sparingly. Domestic consumption is expected to reach record levels, and Polish administrators are not certain they have adequate supplies. A severe winter, in contrast to recent relatively warm ones, would severely overload current supplies.

If it hopes to retain any rapport with the population, the regime will have to be judicious in applying police power and must avoid the use of excessive force in any future outbreaks. Gierek is well aware that it was the overreaction by the militarized security forces in 1970 that helped bring down Gomulka. On the practical side, the leaders probably have some concerns about how the civil police and/or army would react if called upon to put down serious disturbances.

According to the ambassador, there would have been a nationwide general strike on Saturday, June 26th if the regime had not withdrawn the price proposals the day before. One reason for the hasty retreat may have been concern about the reliability of the police forces. The army may have gone on record as refusing to participate in massive repressions. The ambassador had been told that Defense Minister Jaruzelski simply said "don't ask us" when the subject of possible use of troops was raised.

There have been no indications of massive reprisals since the riots. Several individuals lost their jobs and some were imprisoned. There have undoubtedly been some reprisals initiated by local authorities. Gierek realizes, however, that to get over these difficult times he must somehow get the workers to produce more, and he is astute enough to avoid anything that smacks of terror.

From an organizational point of view, there seems little more that Gierek can do to stimulate the population to harder work. The party, trade unions, and social groups in general

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have long been used as means of control over the population, but the average Pole ignores these organizations. For this reason, Gierek has little recourse other than to invoke Polish patriotism as a motivating force.

That Gierek intends to do just this was foreshadowed in his attack on, "opponents" who, he said, close their eyes to Poland's achievements and parade as "spokesmen of democracy, protectors of national sovereignty and even of the economic and social rights of the working people."

This kind of appeal to patriotism has worked in the past, but there are no guarantees this time. However much it is willing to sacrifice for the fatherland, the people are clearly in no mood to accept everything the regime says. They could well decide to play their own waiting game and thus put the onus on Gierek to prove that his policies are better for them than those of his unnamed "opponents" -- or those of any scapegoats he may choose to throw them.

If he is to succeed, Gierek will have to demonstrate considerably more political acumen and organizational skill than he has during the past three months. In relatively short order, he must regain the public's confidence -- which is still on the wane -- heal the wounds in the top leadership, reassure Moscow that political stability will be maintained, and produce some tangible signs of improvement in the domestic economy. The complexity of the tasks that face him, the uncertainty that is so clearly evident in Warsaw, and the volatility of the public make it virtually impossible to predict the outcome.

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